

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8906

INFO AMEMBASSY ISLAMABAD

AMEMBASSY DACCA

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

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E.O. 11652: N/A

TAGS: EAID, EFIN, PK, BG, UK

SUBJECT: PAKISTAN-BANGLADESH DEBT DIVISION AND
COMMERCIAL DEBT QUESTIONS

REF: ISLAMABAD 1270 (NOTAL)

1. WE DISCUSSED PAKISTANI-BANGLADESH DEBT DIVISION
WITH SOUTH ASIA DEPARTMENT, OVERSEAS DEVELOPMENT
MINISTRY (ODM). THEY CONFIRMED THAT HMG/GOP AT LOGGER-
HEADS OVER DEBT DIVISION. DURING ROUTINE DISCUSSIONS
WITH GOP OVER PAST SEVERAL MONTHS IT HAS BECOME CLEAR
TO ODM THAT GOP WAS DEDUCTING PRIVATE CREDITS FROM
REPAYMENT SCHEDULES. ALSO, GOP INFORMED GRINDLEYS
(AS PER REFTEL) THAT THEY WOULD NOT MEET THEIR DEBT
OBLIGATIONS ON PROJECTS VISIBLY LOCATED IN BANGLADESH
(EASTWING DEBT). THIS PROMPTED HMG TO ASK GOP FOR
CLARIFICATION. GOP RESPONDED FEBRUARY 27 BY SAYING
THEY WERE NOT RESPONSIBLE FOR PRIVATE DEBT IN BANGLA-
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DESH.

2. HMG HAS ALWAYS INSISTED THAT DEBT RESCHEDULING AGREEMENTS SPECIFY CLEARLY THAT HMG COULD NOT SPEAK FOR PRIVATE CREDITORS AND THAT GOP WAS NOT RELIEVED OF RESPONSIBILITY FOR THESE DEBTS. THIS IS ONE OF TWO QUID PRO QUOS (THE OTHER BEING GOP ACCEPTANCE OF CONTINUED LIABILITY FOR CERTAIN NON-PROJECT DEBT) ON WHICH HMG AGREED TO LARGE SCALE RESCHEDULING. HMG IS NOW CANVASSING OTHER CREDITORS FOR THEIR REACTION. (ODM SENT CABLE TO UK EMBASSY, WASHINGTON, ON FEBRUARY 28.)

3. IN THEIR RESPONSE GOP SAID THAT FRANCE, NETHERLANDS, AND ITALY HAVE AGREED TO EXCLUSION OF EASTWING DEBT IN PRINCIPLE AND THAT FRG HAS ALREADY SIGNED AN AGREEMENT TO THIS EFFECT. ODM WILL KEEP EMBASSY INFORMED OF RESPONSES TO THEIR APPROACHES TO OTHER CREDITORS INCLUDING INDICATIONS OF SUPPORT FOR THEIR POSITION. THEY ASSUME US WILL CONTINUE TO CONSIDER COMMERCIAL DEBT AS BEING OUTSIDE RESCHEDULING AGREEMENTS.

4. ACCORDING TO ODM AND DEPARTMENT OF TRADE GRINDLEYS HAS INFORMED HMG THAT IT DOES NOT WANT ANY GOVERNMENT INTERVENTION ON THEIR BEHALF. THEY FEEL THEY HAVE SUFFICIENT WEIGHT WITH GOP AND THROUGH INTERNATIONAL BANKING CIRCLES TO FORCE GOP TO AN ACCEPTABLE SETTLEMENT. THEY RECOGNIZE THAT THERE MAY BE A CONSIDERABLE DELAY BEFORE REPAYMENT IS BEGUN, BUT ANTICIPATE THAT REPAYMENT WILL BE MADE ON COMMERCIAL TERMS. GRINDLEYS HOLDS OVER HALF OF GOP'S PRIVATE DEBT IN BOTH EAST AND WEST WING AND VIRTUALLY ALL THE UNINSURED PRIVATE DEBT.

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